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SUBJECT: Mass firing of Mongolian mineworkers sends message to
Mongolian Government: Deal with mining firms in good faith

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proprietary and confidential business information

Ref: 000870 Ulaanbaatar

Summary and Comment

¶1. (SBU) One of Mongolia's largest employers, Ivanhoe Mines, will fire 900 of its domestic and foreign workforce, or some 7.5% of the 12,000 workers directly employed in the Mongolian mining sector. Ivanhoe cannot afford to pay workers idled by the Government of Mongolia's refusal to reach an agreement with Ivanhoe on any of its mining assets in contravention of the new mining law. Ivanhoe fears political and economic repercussions as soon as news of the firings goes public. Ivanhoe's workers blame the Government of Mongolia (GOM) but not Ivanhoe for their imminent firing. The loss of such high quality, high-paying jobs in such numbers will be a first for modern Mongolia, an event not seen since the dark days of early 90's when many state firms went bust and their employees went jobless in their tens of thousands. GOM officials will likely whine and gnash their teeth, criticizing and threatening Ivanhoe and Ivanhoe's new partner, mining giant Rio Tinto with all manner of dire consequences. If officials were more reflective, they would see this first firing as a warning that western firms will not dump money into a nation that ignores its legal obligations to let companies access the rights guaranteed under Mongolia's new mining law. Moreover, the GOM should also reflect on the prospect of thousands of unemployed miners and their families blaming the GOM for their lost jobs. END SUMMARY AND COMMENT.

Happy New Year, and, by the way, you're fired!

¶2. (SBU) Coal miners from Ivanhoe Mining, a Canadian firm, held their annual new year's party on Saturday, December 16. The Canadian expatriates who run the company pulled out all the stops for their 28 Mongolian employees. Mountains of food, rivers vodka, DJs and dancing, a splendid night was had by all. Then a scrumptious champagne breakfast, and finally the ultimate dessert. The Canadians announced that all 28 employees, along with the Canadians, had been fired by Ivanhoe; and so, began what will likely

be the first wave of firings.

¶3. (SBU) According to Ivanhoe reps, by December 31, 2006, Ivanhoe will fire nearly 900 employees or 60% of Ivanhoe's 1500 total Mongolia labor force. To put this in perspective, current mining activities directly employ over 12,000 Mongolians, and the Ivanhoe layoffs comprise some 7.5% of this total labor force. Each laborer, on average, supports a family of five persons, meaning that some 4,500 people are directly affected by the firings. These were good, well-paying jobs for professionals and skilled laborers; and these wages will be sorely missed in Ulaanbaatar and in the Gobi region, where unemployment continues to run high.

¶3. (SBU) Company representatives explained that because the Government of Mongolia has refused to negotiate an investment agreement on the mine or to approve other mining licenses in contravention of Mongolia's new mining law, Ivanhoe cannot proceed to develop its properties; and so, can no longer afford to maintain such a larger, idled labor force.

¶4. (SBU) Although Ivanhoe let post knew that the some layoff's were in the works, Ivanhoe had declined to let the GOM or the general public in Mongolia know its plans, fearing further political repercussions and punitive action against itself. Post can verify that GOM contacts do not know of the imminent firings. However, events in Canada have caught up with Ivanhoe, where investors, already jittery over the GOM's refusal to deal with Ivanhoe, are asking Ivanhoe executives to explain what rumors of layoffs mean for the company's Mongolia operations. Ivanhoe, bound to follow the provisions of Sarbanes-Oxley, will make a general announcement of its intentions within the next week.

¶5. (SBU) According to a reliable Ivanhoe executive, workers are

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somber and aware of what is coming; but do not hold Ivanhoe at fault for the layoffs. Instead, they blame the GOM for their firing. Of course, Ivanhoe wants to mine and has made every effort to strike a deal that would allow it do so. But the GOM has corruptly and unfairly refused to honor its own laws and follow its regulations to issue permits and licensees and to negotiate in good faith; and so, the workers conclude (not without merit) that the fault lies with Parliament and the bureaucracy and not with Ivanhoe.

Minton